

Paying for College without Second Mortgage

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Dear Dr. Don,
With a child going to college next year, what's the best way to pay for it? I only owe \$40,000 on my mortgage, but I don't want to go into another \$160,000 loan at the age 51. Together, my wife and I have an annual income of about \$90,000 a year.
-- John Junior

Dear John,
When paying for college, the first thing to do is fill out the Free Application for Federal Student Aid, or FAFSA. Don't presume that your child won't qualify for aid because of your income. At a minimum, the child will be eligible for federal direct student loans.

I'm a proponent of the child taking on at least some of the cost of his education. He's investing in his future and will ideally reap some economic reward for doing it, so why not tie the loan to his future earnings versus yours? It also helps him focus on academic outcome if he has some skin in the game. You'll also have the ability to take out Parent Direct PLUS loans.

There's no magic solution here. The money to pay for college comes from somewhere. Either it comes from money you've saved, scholarships, grants, current income or loans obtained by one or both of you.

The potential benefits from using the equity in your home to finance college costs are: a lower interest rate and the mortgage interest deduction. The interest expense on a student loan and a PLUS loan, however, may also be tax deductible.

You say you're not ready to take on additional mortgage debt to finance your child's education. You may be unwilling to take out PLUS loans too. If that's the case, you need to discuss this with your child and work with him to put together a strategy to finance his college education on his own. Maybe he does his first two years at a community college. Maybe he takes a year off to work, to help with paying for college. Don't wait until next year to have this discussion.

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